

CASE Network E-briefs



No. 01/2012

January 2012

Russia's Accession to the WTO: Impacts and Challenges

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On December 16th, 2011, an 18 year long negotiation process regarding Russia's WTO membership was finally brought to an end. The WTO adopted Russia's terms and conditions of entry and Pascal Lamy, Director-General of the World Trade Organization, and Elvira Nabiullina, the Russian Minister of Economic Development, officially signed the protocol of accession at the Eighth Ministerial Conference in Geneva. Now the only remaining procedure is the ratification of the documents within the next 220 days in the Russian Federation's Duma. Thirty days after notification, Russia will become a fully-fledged WTO member.

Undoubtedly, Russia's WTO accession is an important event both for the global trade system and for the country. On the one hand, the entrance of one of the world's largest economies into the global trading club will strengthen multilateral trading system and will breathe new life into the WTO, which has been in crisis mode since the failure to reach an agreement during the latest round of Doha trade talks. Elvira Nabiullina pointed out that WTO accession was not a finishing line but a starting point for Russia, and that, as a new WTO member, Russia would contribute to combatting protectionism. No country's accession to the WTO has drawn as much interest and attention since China's entry in December 2001. With Russia now in the club, the WTO will control over 97 per cent of global trade.

It is also worth mentioning that the manufacturing, agriculture, and services producers from the US and the EU, as well as some other major economies, view Russia's WTO accession as a chance to boost trade relationships and open new trade opportunities. For example, according to estimates, Russia's entry into the WTO may contribute to an increase in EU exports by 3.9 EUR a year¹. However, by joining the WTO, Russia is committing to bringing its trade laws and practices into

compliance with the system of established, enforceable, multilateral trade rules that will provide greater certainty and stability to its trading partners.

On the other hand, membership in the WTO will be beneficial for Russia as it will give the country an opportunity to become an active player of this international organization and to shape the rules of world trade, taking into consideration its own long-term economic interests. Integration into the global, rule-based system of trade relations will positively impact Russia's exports through lower tariffs in partner countries, the reduction of the scope for anti-dumping, safeguarding, and countervailing duty actions on the part of those partners, and the expansion of the possibility of acting in Russia's interests. Being outside the WTO, Russia was highly vulnerable to arbitrary restrictive measures against its exporters and producers. For example, Russia's steel industry is subject to strict numerical EU quotas imposed on producers that are not members of the WTO. Russia's exporters are subject to US and EU antidumping investigations and duties, e.g. EU anti-dumping measures against Russia's potassium chloride were applied in 1992 and reviewed every five years through July 2011; the U.S. International Trade Commission (ITC) levied antidumping duties on ferrovanadium and vanadium nitride from Russia. However, once Russia becomes a WTO member, partner countries will be much more careful about imposing anti-dumping and countervailing duties, as after accession Russia will have the right to challenge them via the WTO Dispute Settlement Mechanism. WTO membership will aid Russia in its ambitious plan to innovate and modernize the economy, since, first, imported inputs, particularly equipment, will become cheaper as a result of tariff reductions after accession, and, second, the WTO "seal of approval" will render Russia more attractive for foreign direct investments (FDI). FDI helps increase technology transfer, contributes to export expansion

¹ http://www.deljpn.ec.europa.eu/modules/media/news/2011/111110b.html?ml_lang=en

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CASE E-Brief Editor: Paulina Szyrmer

and makes countries more competitive. In addition, domestic economic reforms spurred by the process of WTO accession will create a more conducive climate for Russia's growth and development.

Experts expect that WTO membership will give Russia an impetus to deepen cooperation with the European Union, whose share in Russia's overall trade constitutes 45.8%, through an increase in mutual investment flows² and strengthened ties in the science, technology and innovation spheres. In addition, Russia's admission to the WTO is likely to spur the ongoing negotiations on the New EU-Russia Agreement.

According to Russian President Dmitry Medvedev, the country is joining the WTO under highly favorable terms that fully take into account the country's conditions³. Russia's WTO accession commitments include:

- Reduction of the average tariff for all products from the current 10% to 7.8%, for manufactured goods it will be decreased from 9.5% to 7.3%, for agricultural products the tariff will be cut from the current average 13.2% to 10.8%. Tariffs on more than one third of national tariff lines will be reduced immediately after accession while further tariff cuts will be put in place gradually within three years. Moreover, Russia managed to negotiate a transition period to help its most vulnerable sectors, i.e. the agriculture (an eight-year period), automotive (a seven year period), and civil aircraft industries (a seven year period);
- Nondiscriminatory treatment of imports of goods and services;
- Liberalization of services, e.g. in the telecommunication sector, foreign equity limitations will be eliminated four years after accession, and Russia agreed to apply the terms of the WTO's Basic Telecommunications Agreement. Foreign banks will be allowed to set up subsidiaries and foreign insurance companies will be permitted to establish branches after nine years after accession;
- Elimination of quantitative restrictions on

imports that are not justified under WTO provisions;

- Announcement of plans for joining the non-mandatory plurilateral WTO Government Procurement Agreement;
- Elimination of industrial subsidy programmes and reduction of the support to agriculture from USD 9 billion in 2012 to USD 4.4 billion by 2018;
- Removal of preferential tariffs or tariff exemptions applied in relation to the existing automobile investment programmes and any agreements concluded under them by 1 July 2018;
- Enforcement of intellectual property rights;
- Guaranteed transparency of trade measures in order to make them known to trade partners and the public⁴.

However, even now, once the WTO has already welcomed Russia as a member, the debates continue about the benefits and challenges of this accession. According to quantitative assessments, Russia's entry into the WTO is expected to have a positive impact on the economy. Studies conducted by the World Bank in different years have revealed that the gains to Russia from the WTO joining will amount to 3.3 % of GDP in the medium run⁵, while three regions will gain considerably more than the national average as a percent of GDP: the Northwest (6.2%), St. Petersburg (5.7%) and the Far East (5.2%)⁶. The distributional impacts of Russia's WTO accession will be also positive, as Rutherford and Tarr estimated that 99.9% of households will gain from 2% to 25% of their household income; moreover poor households will gain slightly more than rich households, on average⁷.

CASE's quantitative assessments seem very close to

² The EU is by far the most important investor in Russia with a share of more than 75% of its total investment stock.

³ http://www.deljpn.ec.europa.eu/modules/media/news/2011/111110b.html?ml_lang=en

⁴ http://www.rferl.org/content/russia_set_to_join_wto/24423794.html

⁴ http://www.wto.org/english/news_e/news11_e/acc_rus_10nov11_e.htm

⁵ Jesper Jensen, Thomas Rutherford and David Tarr (2004) "Economy-Wide and Sector Effects of Russian WTO Accession". Washington, World Bank

⁶ Thomas Rutherford and David Tarr (2006) "Regional Impacts of Russia's Accession to the WTO". World Bank Policy and Research Working Paper Number 4015. Washington, World Bank.

⁷ Rutherford, T. and D. Tarr (2008b), "Regional Household and Poverty Effects of Russia's Accession to the WTO," World Bank Policy and Research Working Paper Number 4570. Washington, World Bank

those reported by the World Bank; they reveal that Russia's WTO will contribute to an improvement in welfare by 4.8% of consumption.

WTO accession will have a varied impact on different sectors of Russia's economy. According to assessments, the sectors that will most likely benefit are non-ferrous and ferrous metals and chemicals. The results of the CASE study commissioned by RUSNANO suggest that the country's accession to the WTO will have a positive impact on the development of innovative and nanotechnology industries. However, some of the sectors that were most protected prior to the tariff reduction and which have a relatively small share of exports will lose out, e.g. production of machinery, equipment and construction materials, as well as the food and light industries.

CASE experts also pointed out in the report on Russia's WTO accession prepared for ROSNANO that the one major respect in which accession might hamper the Russian export effort is in driving up production costs on account of the need to meet higher international standards, particularly sanitary and phytosanitary (SPS) standards. This could be a significant issue for agricultural and pharmaceutical exports. It should be stressed, however, that this is not a problem specific to exports. It may affect all sectors, and it may affect production for the domestic market at least as much as exports, and, cost factors can be positive as well as negative.

Nevertheless, the positive aspects of Russia's WTO accession definitely outweigh the negative and the country has time to devise strategies to overcome challenges and has the capacity to support key sectors that are likely to be negatively affected.

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